



FG INVESTMENT PARTNERS

GLOBAL BRIEF

Quarter 4 | 2021



EDITORIAL COMMENT

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The global investment environment experienced an interesting final quarter of 2021

There is seldom a dull moment in the global investment environment and the final quarter of 2021 was the same. It comes as no surprise to see that several terms are used frequently in both this editorial and the articles that follow. These include pandemic, supply constraint, inflation, interest rates, fiscal stimulus, easy money, tapering and economic growth. These factors influenced investment markets in the final quarter of 2021 and will continue to do so in 2022.

Markets did well in the final quarter despite a rise in inflationary pressures

By the time you read this, you will know that markets did pretty well in both the final quarter of 2021 and for the year as a whole. The FTSE/JSE All Share Index returned a little more than 15% over the quarter, while global equities (MSCI World Index) produced a rand return of just over 14% over the same time period. Macroeconomic conditions were broadly supportive with economic growth still in recovery mode and with money market rates remaining relatively low. Omicron proved to be less deadly than previous strains. However, in December, a growing inflationary threat pushed global bond yields higher and global bond returns into negative territory. On the other hand, South African bond returns remained positive, helped by relatively high starting yields. The Minister of Finance's Medium Term Budget Policy Statement reflected slightly better than expected projected debt metrics, although these still look challenging.

Investors should anticipate 'reasonable' but not 'outsized' performance going forward

Investors would do well to temper return expectations for 2022 compared to 2021. Interest rates will rise in response to inflation pressures, and economic growth, while still above trend, will decelerate somewhat off a higher base. A rising cost of capital and slowing earnings will likely prove somewhat of a headwind for equity markets. Growing geopolitical risk (like what is going on in the Ukraine, etc.) could also contribute to heightened volatility. Markets have already started to reflect these uncertainties at the beginning of the new year. In South Africa, while both the bond and equity markets look cheap, a lot depends on the reform agenda the quarter. However, the recent hawkish stance from the US Federal Reserve and the possibility of risk-off sentiment may see the rand retreat.

INDEPENDENT TRANSPARENT COMPETENT

What you can look forward to in this edition

Iain Power, the CIO of Truffle Asset Management, reflects on potential investment themes for 2022 and covers factors such as interest rates, debt burdens and valuations. Clyde Rossouw, Co-Head of Quality at Ninety One, chats about why an emphasis on quality is normally a good idea, and points out the particular merits of quality investing in inflationary times. Lynn Bolin, Head of Communications and Media at M&G Investments, writes about investing during pandemic times, why the opportunity costs of holding cash are high when interest rates are so low, and the pitfalls of trying to time the market. Nic Andrew, Head of Nedgroup Investments, points out in his article, "Don't be a fool," that you don't need to be super smart to avoid making big mistakes. And lastly, Nirdev Desai, Head of Sales at PSG Wealth, shares insightful tips to keep you prepared for a healthy retirement. These include managing your emotions when markets are volatile.

Wishing you all the best for 2022 and we hope you enjoy reading the insights

Please don't hesitate to get in touch with us if you have any questions about how these may affect your investments.

As always, stay safe.

The FG Asset Management Investment Team



INVESTMENT THEMES TO WATCH IN 2022



Adapted from an article by
Iain Power

CIO of
Truffle Asset Management

In 2021, we had to navigate the staggered re-emergence of markets and economies from the effects of the COVID-19 pandemic. We also saw the return of inflation after decades of absence. Looking ahead, we believe 2022 is likely to be a pivotal year in terms of the desynchronisation of fiscal and monetary policies, the effects of inflationary pressures, and the subsequent effects on certain asset classes. These are the persistent themes we have been watching, and will continue to watch, as they have the potential to shape investments in 2022.

The US long-term interest rate remains one of the most important rates to watch

Most interest rates around the world are affected by the US interest rate, and this is used to value assets and discount their future cashflows. It is central to how we arrive at intrinsic value. A change in the discount rate, therefore, has a significant impact on the valuation of the different types of assets.

If rates go down significantly, as we have seen in the US in recent years, the price to earnings ratios of long-duration (growth) equities rise more than that of higher-yielding equities, and vice versa. However, rising inflation expectations will likely see increases in the Federal Funds Rate in 2022, and investors need to be mindful of the impact this will have on their investments.

We remain convinced that global interest rates are still too low given the current strength of the global economy and rising inflation expectations. It is becoming harder for central banks to argue that inflation is transitory. It is becoming more pervasive, particularly in the services sector of the economy. Many emerging markets have already started to push up their interest rates and the question now is at what point the central banks of developed economies will pivot to a more restrictive policy.

How will governments pay back the money?

The reaction of governments around the world to the COVID-19 pandemic and its effects was almost unanimous: they supported their economies through fiscal spending and monetary stimulus at unprecedented levels. This has supercharged the valuations of US equities, but also other assets including residential property, art, fixed income and bitcoin.

This huge debt burden now sits on governments' balance sheets and there are only three ways to reduce the high levels of debt. The first is to try to repay the debt by raising taxes. We are starting to see a little of this in the US, but it won't move the needle. Secondly, governments could default, which we think is unlikely. Finally, governments could allow a period of sustained higher inflation over a longer period to reduce the levels of debt. We think this is the most likely scenario going forward.

Know what to avoid

Returns in 2022 and beyond are going to be shaped not only by what investors own but also by what they don't own. In our view, this especially means avoiding some of the irrationally expensive assets like long-dated developed market bonds and some of the very highly valued 'hopes and dreams' equities. We think staying invested in these assets is a sure way of losing money for clients when the liquidity and monetary support are ultimately withdrawn.

We believe it is important to identify opportunities with a significant margin of safety, and those assets with higher yields. The direction of travel for the US 10-year rate is likely to be higher and we, therefore, want to avoid many of the expensive crowded long-duration growth equities as they will be much more negatively affected by rising discount rates.

There are lots of cheap assets with higher yields offering investors outsized returns – particularly in South Africa – and it's important to remember that investors still need exposure to equities in the long run. This will particularly be the case if we are moving into a period of higher inflation, as this is the only way to protect the real value of their savings.

QUALITY INVESTING DURING INFLATIONARY TIMES



Adapted from an article by
Clyde Rossouw

Co-Head of Quality
Ninety One

What will insulate quality businesses from inflation?

There are three core characteristics that insulate quality businesses from the damage inflation can bring, pricing power, low capital intensity, healthy balance sheets.

- Pricing power – an attribute achieved through enduring competitive advantages building significant barriers to entry – ensures quality companies can sustain their healthy profit levels.
- Capital light businesses will be much less impacted by inflation in required capital expenditure costs than capital intensive businesses.
- Having healthy balance sheets – with low levels of debt – puts quality companies in an enviable position of strength should interest rates rise.

We believe businesses with these characteristics are well positioned to drive real shareholder returns irrespective of the macro environment, and will continue to do so if prices do rise for a prolonged period.

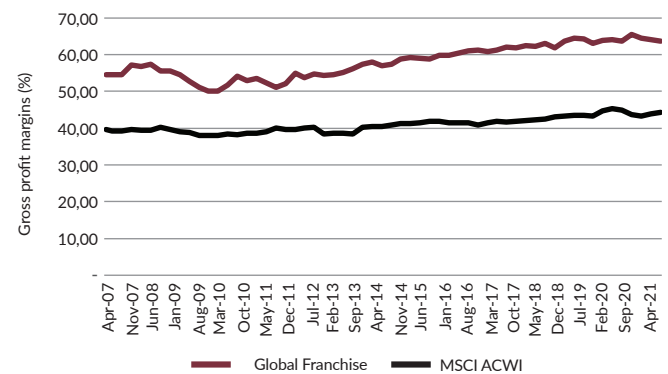
Concerns about inflation have dominated investor conversations during 2021

The initial consensus that the price increases would be “transitory” – used with particular emphasis by the US Federal Reserve – has worn thin in the face of a pronounced energy crisis, labour shortages and supply chain bottlenecks. In addition, COVID-19 distortions have made it extremely difficult to accurately predict the level of inflation we can expect from here. Nevertheless, it would be pertinent to assess the potential impact on our portfolio companies if we are indeed entering an inflationary environment for a prolonged period.

Pricing power ensures that quality companies can sustain their healthy profit levels

We define high-quality companies as those with enduring competitive advantages that are derived from intangible assets such as brand, intellectual property, unique content, and networks. These exceptional qualities provide these companies with barriers to entry and – crucially – pricing power, which in turn enables them to deliver long-term structural growth and resilience, irrespective of whether the environment is inflationary, and compound cash flows at sustainably high levels of profitability.

Figure 1: Global Franchise has consistently delivered higher levels of profitability than the broader market



Sources: Ninety One, FactSet, 30 September 2021

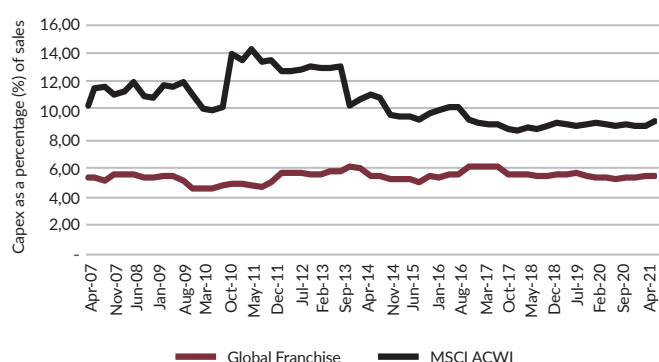
This is the case across the various industries we invest in, where high gross margin businesses will be less impacted by rising input costs. Pricing power is present in a variety of forms in our portfolio. Some companies possess explicit pricing power through offering critical products and services, such as ASML and Moody's, while others have commission-based revenue models, including Booking Holdings and Visa, where percentage take rates enable rising transaction prices to transfer fully through to revenues. Another form of pricing power comes from strong brands and premium category positioning. Supply disruption can have a meaningful impact on consumer goods companies with complex global supply chains and tightly managed working capital cycles. However, businesses such as Estee Lauder and Nestlé are well-placed to mitigate the risks of disruption and input cost inflation through their large portfolios of dominant brands in attractive categories with market-leading distribution.

Capital light businesses will be less impacted by inflation than capital intensive businesses

The conventional wisdom often cited during inflationary times is to invest in capital intensive businesses such as those in the energy and commodity sectors, who clearly benefit from inflation in the commodities they produce and sell. However, lower quality capital intensive companies with high fixed cost bases may struggle longer term during inflationary periods. This is because they have significant reinvestment requirements to maintain their physical assets such as buildings and machinery, and inflation in capital expenditures (capex) inevitably eats into cash flows.

We believe high quality, capital light businesses with much lower capital expenditure requirements will be much better protected in an inflationary environment. One of the key attributes we look for is low capital intensity, with holdings such as Verisign and Intuit having significantly lower capex needs than the wider market. These companies can sustain profitable free cash flow growth which, in turn, can be reinvested into the business to fund future growth or be distributed to shareholders in the form of dividends or buybacks. Such businesses are not only better equipped to survive during periods of inflation but also thrive.

Figure 2: Global Franchise companies have historically had to spend less to generate revenue

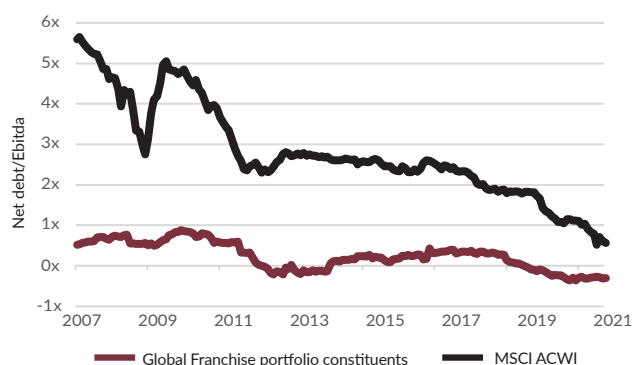


Sources: Ninety One, FactSet, 30 September 2021

Having healthy balance sheets – with low levels of debt – puts quality companies in an enviable position of strength if interest rates rise

Returning to the theme of conventional wisdom, many commentators encourage owning value and cyclical stocks in periods of inflation and rising rate expectations, as they benefit from lower starting multiples and shorter-dated cash flows as discount rates rise. However, quality companies with typically stronger balance sheets will be less impacted by higher financing costs as rates rise and will actually benefit directly from higher rates where they have net cash on their balance sheet. A strong financial model is critical to successfully navigating more challenging economic and market conditions. Low financial leverage and low capex requirements provide valuable operational flexibility for high-quality companies in times of market weakness. In contrast, highly leveraged low-quality companies could see further stress put on their balance sheets by higher financing costs as interest rates rise to combat inflation.

Figure 3: Quality companies have lower financial leverage, making them less impacted by higher financing costs if rates rise



Sources: Ninety One, FactSet, 30 September 2022

A consistent investment philosophy

Through these attributes, we remain confident that our approach will be well-equipped to perform well through an inflationary environment and be resilient should there be any periods of market weakness. The entire team shares a consistent investment philosophy, which ensures that all research ideas centre around those companies with pricing power, low capital intensity and strong balance sheets. We believe such businesses are well set to compound shareholder wealth in real terms irrespective of the macro environment and will continue to do so if prices do rise for a prolonged period.

General risks

The value of investments, and any income generated from them, can fall as well as rise. Where charges are taken from capital, this may constrain future growth. Past performance is not a reliable indicator of future results. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations. Investment objectives and performance targets are subject to change and may not necessarily be achieved. Consequently, losses may be made. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

Specific risks

Equity investment: the value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company. Concentrated portfolio: the portfolio invests in a relatively small number of individual holdings. This may mean wider fluctuations in value than more broadly invested portfolios. Emerging market (including China): these markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

INVESTING DURING CORONAVIRUS: CASH HAS BEEN A POOR CHOICE



Adapted from an article by
Lynn Bolin

Head of Communications and
Media
M&G Investments

Cash holdings have proved to be a risk for long-term investors

In the volatile market conditions of the past two years, it may have seemed like the wise thing to do to hold more cash in your portfolio than you normally would, because of the safety it appeared to offer. Many South African investors did move into cash and away from riskier assets, according to ASISA data. The bad news is that, because of the record-low interest rates that have prevailed, those cash holdings have instead presented a significant risk, especially to longer-term investors: by opting for cash over equities and bonds, investors have been foregoing higher returns and the inflation protection that comes with them, as well as the ability for those higher returns to compound over time. The good news, on the other hand, is that those who consistently stuck with their “higher-risk” assets have managed to earn strong returns.

Timing the market gives you inferior results

If you are thinking that you could have perfectly “timed” the market by buying equities and bonds just after the market crash (thereby avoiding the big downturn but benefiting from the recovery), history has shown that this is extremely difficult for anyone to do (especially doing it consistently over time), and inevitability results in inferior returns. It is human nature to dislike uncertainty and be reluctant to take risks in highly uncertain conditions, and it is impossible to predict exactly when the cycle will turn. In this particular crash, equity markets rebounded exceptionally strongly and quickly, and there were few (if any) signals that could have indicated such a rapid future recovery.

Cash is still likely to underperform for some time

We are now past the worst of the crisis (hopefully) and global equity markets, including the JSE, have surpassed their pre-pandemic levels. Interest rates have begun to rise in response to quickly rising inflation. Some investors may now worry that they have missed the lion's share of the equity rally and be tempted to avoid equities and bonds while staying in cash.

However, in our view, you are likely to be adding to your risk (the risk of not beating inflation) if you decide to keep your South African cash exposure high. This is because of the very low base off which our rates are rising – potential cash returns are still very unattractive compared to those from South African equities and South African bonds, especially in real terms with rising inflation. The latter offer excellent return potential compared to their histories, even after accounting for the strong gains they have already recorded. In our view, it will still be some time before cash becomes a viable option for longer-term investors, relative to other local assets, and then mostly for its diversification and liquidity benefits. By contrast, both South African equities and bonds still offer attractive prospective returns over the next three to five years, based on their current valuations. Negative investor sentiment has weighed on our markets more than many others – excessively, we believe – so that current yields are compensating us very well for the risks involved.

In conclusion, there's no doubt that resisting the urge to build up cash in a portfolio is difficult in falling markets and highly uncertain conditions like the Coronavirus crisis. However, the most successful investors have avoided moving to cash, and not attempted to time the ups and downs of the equity market. Over time, longer-term investors will be rewarded for their consistency in staying the course with their somewhat riskier, but higher-returning, portfolios.

LESSON #3 – DON'T BE A FOOL



Adapted from an article by
Nic Andrew

Head of Nedgroup Investments

William Green's new book: what is it all about?

Charlie Munger, the legendary 97-year-old investor and billionaire partner to Warren Buffett is renowned for his multi-disciplinary intellect and wicked sense of humour. He described Williams Green's new book, 'Richer, Wiser, Happier' as "one of the best investment books ever written" and that he "had not read a book that good in sometime".

Green, an Oxford educated financial journalist and author has spent hundreds of hours interviewing some of the world's super investors. These investors include well-known luminaries such as Charlie Munger, Jack Bogle, John Templeton, Joel Greenblatt, Bill Miller and Howard Marks as well as less-known but equally exceptional investors such as Nick Sleep, Arnold van der Berg, Ed Thorp and Tom Gayner.

While these investors share remarkable track records over long periods of time (from two to six decades), they have different investment and life philosophies. Green uses his unparalleled access to these billionaires to identify key nuggets, common characteristics and lessons that are transferable.

There are many fascinating insights – both investing and life lessons – including how many of these legends have "non-normal" financial backgrounds and almost stumbled into investing as a career, how they are intellectually curious, hardworking, and surprisingly non-ostentatious.

There are three clear lessons we can learn from these super investors:

1. Simplicity and consistency

All the super-investors had distilled years of learning into a simple philosophy which could, in most cases, be articulated in a few easy-to-understand bullets. These frameworks were both extremely logical and had been applied and refined consistently for decades. This superpower of steadfastly sticking to a few key foundational principles and beliefs helped guide them successfully through the fog of complexity that is the markets and economy. It also proved to be a particularly valuable philosophy to fall back on during periods of crises or underperformance.

It was also apparent how conscious they were of their own potential behavioural flaws and how they had designed explicit systems to minimise these shortcomings.

2. Subtraction

The top investors almost had an obsession to reduce mental clutter. In an age of guilt-inducing reminders and clickbait, they have worked hard to understand which things genuinely make a difference and to minimise all unnecessary complexity.

Many made sure they allocated long periods of time to be able to think quietly. They enforced periods where they physically distanced themselves from "noise" such as Bloomberg terminals or email notifications. They also clearly identified and acknowledged the things that were not in their circle of competence or where they had no real edge and did not waste time on focusing them personally.

3. Not being a fool

Another common insight was that to be successful over the long term, it was critical to both survive and avoid catastrophic mistakes. A large part of this meant simply not doing stupid things or avoiding being a fool!

While it may be difficult to be smart, it is much easier to be non-idiotic. Charlie Munger has spent decades studying mistakes in investing and life and then trying to avoid the obvious ones such as leverage or chasing fads (in investing) and chemical abuse or envy (in life).

He often talks about the power of inverting when trying to address a problem. For example, instead of asking what one should do to live a successful life, he inverts and asks, "If you want to have a disastrous life, what would you do?". He then tries to avoid those obvious things.

These three lessons – simplicity, subtraction and not being a fool – are simple but profound. They can help us all be better investors and lead happier and more meaningful lives.



INVESTMENT TIPS TO KEEP YOU ON TRACK FOR A HEALTHY RETIREMENT



Adapted from an article by
Nirdev Desai

Head of Sales
PSG Wealth



Holistic financial planning

Holistic financial planning implies a balancing act of prioritising one's financial goals. The assets saved for retirement are the largest pool of assets most individuals will accumulate in their lives. At age 65, the average life expectancy for the largest 20 economies (G20) is around age 85 and, in a single-income household with a spousal dependant, there is a healthy chance of at least one person living to age 95.

Understand your financial planning priorities

Planning for 30 years of retirement income necessitates ensuring that other priorities don't detract from meeting savings and investment objectives (during the accumulation phase), or impact retirement investing and income drawdown management (for at least 30 years in the decumulation phase). Living annuities are ideal for those with sufficient capital, and advantageous from an estate planning perspective seeing as living annuities do not form part of your estate on death, thus mitigating estate tax duty and reducing the size of the dutiable estate. However, a retiree is self-funding and needs to manage longevity, drawdown, and growth versus conservative asset risk to ensure that there are sufficient assets – at least until the death of the last surviving spouse. With so many variables, it is prudent to ensure your living annuity will provide an income for at least 30 years.

Understand how inflation will affect your lifestyle

If we lived in the future with the same basket of goods as we have today, inflation would be a good proxy of what your target amount needed for retirement should be. However, retracing a few years, say 30 years, we can see how much things have changed. Cell phone and fibre internet costs were not even a thought, self-funding one's electricity requirements ("going off the grid") was not a consideration for most, and medical expenses and school fees were vastly different. The official inflation print should therefore only be a starting point for understanding your existing and future lifestyle inflation. If you lived in the same world as 30 years ago, saving at cash rates may have been adequate, but in an ever-changing world, your inflation basket will likely be more than the inflation basket set by South Africa's government.

Some further food for thought that can assist in understanding lifestyle drivers of inflation is a concept called Baumol's Cost Disease, which explains that, on aggregate, service prices go up by more than goods prices over time. For example, it takes the same amount of time for a musician to perform a symphony today as it did 30 years ago, but the time taken to produce a pencil has come down substantially due to higher production efficiencies.

If your basket of goods consumed (and planned for) consists of more services than goods (which is typical in the middle to higher income and wealth groups), there is a good chance that you will need to cater for higher inflationary requirements.

Manage your emotions around the short-term volatility of growth assets

Make sure you have a good coach to help manage your emotions through periods of market volatility. Our biases need to be kept in check if we are to achieve the inflation-beating returns our post-retirement lifestyles require. The higher the required return above official inflation numbers, the higher the volatility of the required portfolios is likely to be. A good financial planner will be able to help you understand the time horizon required to achieve your expected returns – and factor periods of heightened market volatility into the equation, as these short-term fluctuations are typically accounted for in a good financial plan.

Have a game plan to manage events that will throw off achieving your goals

1. Your broader financial plan needs to account for unexpected events that may impact your retirement savings plan and the legacy you wish to leave. Examples include catering for family needs, employment events (such as relevance in the workplace, retrenchment and disablement) and medical expenses (including palliative care in the final year of life, which accounts for approximately 25-30% of medical aid schemes' annual expenses).
2. Understand that you may have 'lifestyle creep' through your working career – what you consider to be a good lifestyle may change as time passes, so you need to be financially prepared to adjust your pre-retirement contributions to meet your lifestyle requirements in retirement. Naturally, since a shorter time frame is available to save for this increased capital requirement, substantially higher contributions may be required than if you had started on your savings journey early on in your career.

There are many other aspects that a good financial planner will help you with in planning for a great retirement, such as a cash flow analysis, the required growth assets to achieve sustainable drawdowns through your lifetime, and the legacy you wish to leave. Please engage with one early on, and continuously through your pre-retirement savings journey, so you are well prepared and have sufficient provision for your retirement lifestyle.



FG ASSET MANAGEMENT

QUARTERLY
REPORT

Quarter 4 | 2021

ARCHITECTS OF SENSIBLE INVESTMENT SOLUTIONS

MARKET COMMENTARY



Jacy Harington
Portfolio Manager
FG Asset Management

US inflation increased rapidly due to a rise in energy prices

Investor sentiment recovered in the last quarter of the year after the market weakness of the third quarter. Inflation remained a concern, as an increase in global prices proved that it was in fact not as 'transitory' as central bankers were originally expecting. US inflation increased to 6.8% (year-on-year) in November, which was the fastest annual price growth in 39 years. The run-up in energy prices (+33.3% year-on-year) accounted for a significant part of the increase. However, considering the other underlying inflation components, there were increased signs of more broad-based pricing pressure.

The US Federal Reserve (the Fed) has removed accommodative monetary policy

The elevated inflation supported the Fed's decision in early November to remove the accommodative monetary policy that has been in place since the economic lockdown in early 2020. The announcement was clearly communicated and widely expected by the market. It entailed reducing the size of its \$120 billion monthly asset purchases (quantitative easing) by \$15 billion in November and December.

The pace of tapering doubled in December and three rate hikes are now expected this year

In addition, the Federal Open Market Committee (FOMC) announced at its December meeting that it will accelerate the tapering by doubling the pace to a \$30 billion reduction in purchases per month. This means that the asset purchases programme should now finish by March 2022 rather than June 2022. Another notable shift in stance came from the closely watched dot plot, which reflects expectations

for future rate hikes. Each dot represents the expectations of each of the FOMC's 12 members and each Fed bank president (median of 18 separate expectations in total). It showed that overall median expectations were for three 0.25% rate hikes in 2022. This is a meaningful change from expecting one 0.25% hike for 2022 at their previous meeting in September.

Figure 1: Fed dot plot as at 15 December 2021



Source: Bloomberg



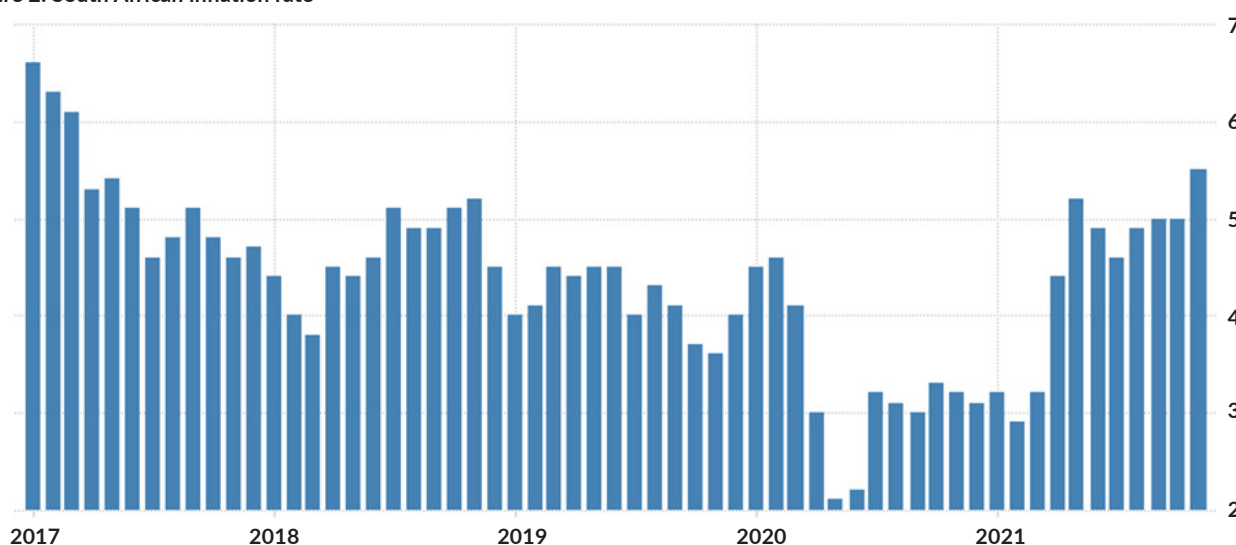
US and Chinese GDP came in weaker than expected in the third quarter

More macro-economic data releases have come through that point toward a slowing of the strong recovery we experienced in global growth as economies opened up after lockdowns. The US GDP growth for the third quarter showed that the economy grew by 2.1% annualised, which was below market expectations of 2.7%. The growth was weighed down by the decline in consumer spending, which was weaker than expected. The Chinese GDP for the third quarter also came in weaker than expected, growing only 0.2% from the previous quarter. There were numerous factors that weighed on the quarter's growth, including electricity disruptions, increased regulation within the education and technology sectors on top of difficulties within the property sector.

South African headline inflation increased in November

Locally, headline inflation for November increased to 5.5% year-on-year, up from 5% in October. However, despite this being the highest level since March 2017, inflation has remained within the South African Reserve Bank's (SARB) 3-6% target range. The main driver behind the increase was transport costs driven by higher petrol prices, which increased 7.1% in November and 34.5% during the year.

Figure 2: South African inflation rate

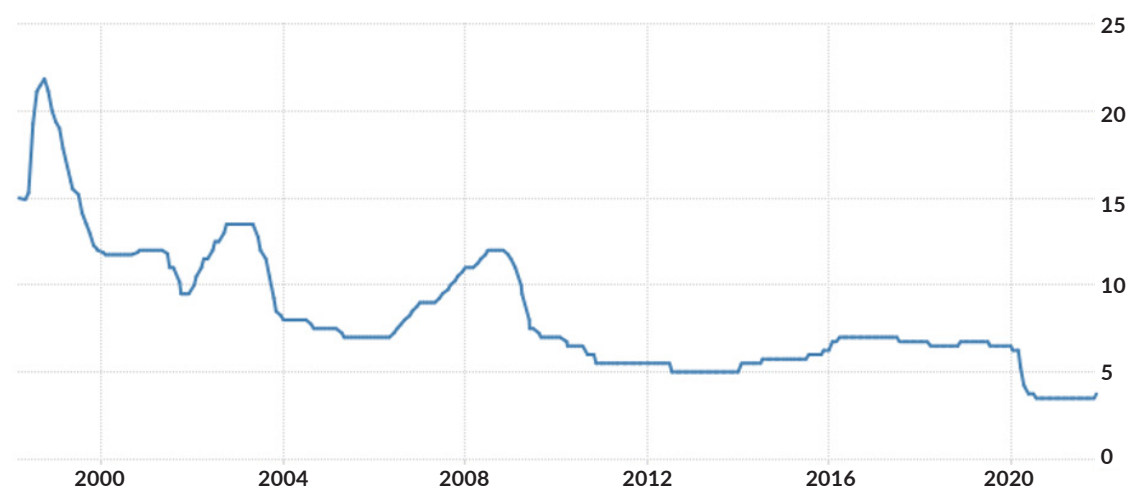


Sources: Statistics South Africa, www.tradingeconomics.com

A 0.25% increase in the repo rate signals a change to accommodative monetary policy

In November, the South Africa Reserve Bank's Monetary Policy Committee (MPC) made the decision to increase the repo rate by 0.25% to 3.75%. The decision was not unanimous, as two MPC members voted to leave the repo rate unchanged. The committee noted the upside risks to local inflation, especially given the trend of higher global inflation data. This was the first necessary step to remove the accommodative monetary policy, which has been in place to provide support following the COVID-19 lockdowns. However, the MPC does expect the path of future rates hikes to be gradual.

Figure 3: South African interest rates from 1998 to date



Sources: Statistics South Africa, www.tradingeconomics.com

South Africa's outlook remains uncertain and is reliant on structural reforms

South Africa had its first budget review from our new Finance Minister, Enoch Godongwana, in early November. The MTBPS was well received, as it indicated that he will stay committed to reigning in government spending and to structural reform to drive future growth. South Africa's fiscal position has improved since the February Budget, but this was mainly due to the higher-than-expected tax receipts from the resources sector and Stats SA's GDP revision earlier in the year. Both factors are seen as once-off and cannot be relied on for support going forward. The growth and spending outlook remains highly uncertain, and the success of the structural reforms will be key to determine whether National Treasury will reach their debt and spending projections.

South Africa's credit rating stabilised despite a 1.5% contraction in growth

South Africa's third quarter GDP was released in December, which also disappointed as it reflected a 1.5% contraction in growth due to the July riots and COVID-19 lockdowns that weighed in on economic activity. Despite the larger than expected contraction in economic activity, one of the major rating agencies, Fitch, surprised the market by upgrading its outlook of South Africa's sovereign credit rating from negative to stable. The rating remains unchanged at BB-.

The main reasoning behind the change was the lower-than-expected debt levels given the higher rebased GDP earlier in the year and the unexpected tax proceeds from the resources sector that was used to reduce debt. The rating agency also stated that the economic recovery post-COVID-19 was much stronger than expected.

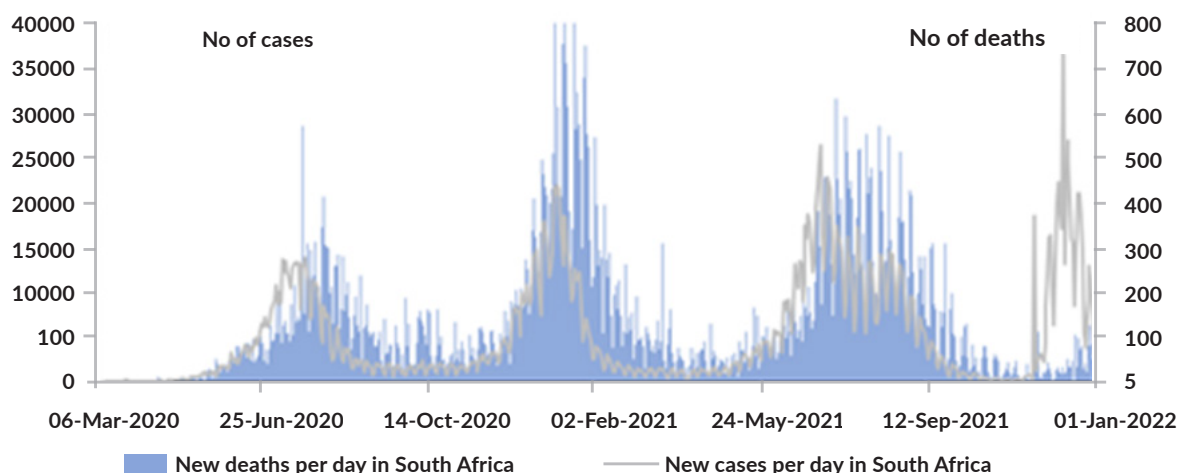
The Omicron variant weakened the tourism industry

Going into the last week of November, the discovery of a new virus variant (Omicron) in South Africa weighed on risk assets, given the uncertainty around the severity of the new variant and what the implications would be on global growth. Soon after the announcement, many foreign nations imposed Southern African travel bans, which further hurt the already weakened local tourism industry.

Markets quickly recovered from the initial scare of the new variant

Developments around Omicron were closely followed over December, with markets recovering into year-end after the initial scare. Evidence mounted that, despite the high infection rates of this new variant, actual hospitalisations and deaths remained significantly lower than previous waves.

Figure 4: South African number of cases and deaths per day



Sources: Department of Health, Investec



FG SCI* JUPITER INCOME FUND OF FUNDS

For periods until 31 December 2021

Performance and quartile ranking in sector | Launch date 15 August 2005

	6 Months	Year to date	1 Year	3 Years*	5 Years*	10 Years*	Since inception*
FG SCI Jupiter Income FoF	3.41%	7.01%	7.01%	6.81%	7.25%	7.41%	7.81%
STeFI Composite Index	1.94%	3.81%	3.81%	5.49%	6.25%	6.17%	6.98%
ASISA SA Multi Asset Income Category Average	3.31%	6.66%	6.66%	6.95%	7.27%	7.09%	7.67%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data longer than 12 months is annualised

Source: Morningstar, performance for A class shares

Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- Abax Flexible Income Fund
- Coronation Strategic Income Fund
- Granate SCI Multi Income Fund
- Matrix SCI Stable Income Fund
- Prescient Income Provider Fund
- Terebinth SCI Strategic Income Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	11.61%	11.77%
Lowest 12-month performance	3.25%	3.76%
% Positive months	93.88%	100.00%

The FG SCI Jupiter Income Fund of Funds returned +1.85% in the fourth quarter of 2021 and +7.01% over the past 12 months, outperforming the benchmark Alexander Forbes Short Term Fixed Income Index quarterly return of +0.98% and 12-month return of +3.81%. The Prescient Income Provider Fund was the best-performing underlying fund over the quarter, returning +2.29%. The Matrix SCI Stable Income Fund was added as an underlying fund over the quarter, to diversify the skill set of the underlying managers that the fund is exposed to.

Asset allocation as at 30 November 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Jupiter Income FoF	0%	2%	52%	41%	5%



FG SCI* VENUS CAUTIOUS FUND OF FUNDS

For periods until 31 December 2021

Performance and quartile ranking in sector | Launch date 2 July 2007

	6 Months	Year to date	1 Year	3 Years*	5 Years*	10 Years*	Since inception*
FG SCI Venus Cautious FoF	6.76%	13.38%	13.38%	9.97%	7.92%	8.99%	8.78%
ASISA SA Multi Asset Low Equity Category Average	7.10%	13.53%	13.53%	9.04%	7.31%	8.09%	7.72%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data longer than 12 months is annualised

Source: Morningstar, performance for A class shares

Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- 36ONE BCI Equity Fund
- Abax Opportunity Fund
- ABSA Property Equity Fund
- Coronation Global Optimum Growth Feeder Fund
- Coronation Strategic Income Fund
- Fairtree Equity Prescient Fund
- Matrix SCI Defensive Balanced Fund
- Ninety One Diversified Income Fund
- Ninety One Global Multi-Asset Income Feeder Fund
- Ninety One Global Franchise Feeder Fund
- Prescient Income Provider Fund
- Saffron SCI Opportunity Income Fund
- Satrix Bond Index Fund
- Sanlam Multi Manged Inflation Linked Bond Fund
- Sesfikile BCI Property Fund
- Terebinth SCI Strategic Income Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	16.83%	17.26%
Lowest 12-month performance	-1.41%	-3.15%
% positive months	72.41%	72.41%

The FG SCI Venus Cautious Fund of Funds returned +5.10% in the fourth quarter of 2021 and +13.38% over the past 12 months, outperforming the benchmark peer group average quarterly return of +5.00%, while underperforming the 12-month return of +13.53%. The Ninety One Global Franchise Feeder Fund was the best-performing underlying fund, returning +13.40% over the quarter. The fund's offshore bond exposure was reduced (the Ninety One Global Multi Asset Income Feeder Fund) over the quarter. The proceeds of the partial redemption were split between local equities (the Fairtree Equity Prescient Fund) and local bonds (the Satrix Bond Index Fund and the Terebinth SCI Strategic Income Fund).

Asset allocation as at 30 November 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Venus Cautious FoF	15%	3%	37%	24%	20%



FG SCI* SATURN MODERATE FUND OF FUNDS

For periods until 31 December 2021

Performance and quartile ranking in sector | Launch date 15 August 2005

	6 Months	Year to date	1 Year	3 Years*	5 Years*	10 Years*	Since inception*
FG SCI Saturn Moderate FoF	8.35%	18.14%	18.14%	12.01%	8.27%	9.70%	10.36%
ASISA SA Multi Asset Medium Equity Category Average	8.93%	17.31%	17.31%	10.61%	7.76%	8.77%	9.11%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data for longer than 12 months is annualised

Source: Morningstar, performance for A class shares

Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- 36ONE BCI Flexible Opportunity Fund
- Abax Opportunity Fund
- Coronation Market Plus Fund
- Coronation Global Optimum Growth Feeder Fund
- Matrix SCI Defensive Balanced Fund
- Ninety One Opportunity Fund
- PSG Flexible Fund
- Rezco Value Trend Fund
- Satrix Bond Index Fund
- SIM Inflation Plus Fund
- Truffle SCI Flexible Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	31.40%	26.41%
Lowest 12-month performance	-18.22%	-15.68%
% positive months	70.41%	67.86%

The FG SCI Saturn Moderate Fund of Funds returned +5.92% over the fourth quarter of 2021 and +18.14% over the past 12 months, underperforming the benchmark peer group average quarterly return of +6.67% and the 12-month return of +17.31%. The Rezco Value Trend Fund was the worst-performing underlying fund, returning +0.21% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 30 November 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Saturn Moderate FoF	35%	2%	26%	13%	24%



FG SCI* NEPTUNE GROWTH FUND OF FUNDS

For periods until 31 December 2021

Performance and quartile ranking in sector | Launch date 1 September 2014

	6 Months	Year to date	1 Year	3 Years*	5 Years*	Since inception*
FG SCI Neptune Growth FoF	8.93%	19.82%	19.82%	12.98%	9.40%	8.08%
ASISA SA Multi Asset High Equity Category Average	9.99%	20.31%	20.31%	11.49%	8.00%	6.93%
			1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data for longer than 12 months is annualised

Source: Morningstar, performance for A class shares

Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- ABSA Property Equity Fund
- Catalyst Global Real Estate Prescient Feeder Fund
- Coronation Global Optimum Growth Feeder Fund
- Fairtree Equity Prescient Fund
- Laurium Flexible Prescient Fund
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- Prudential Balanced Fund
- PSG Flexible Fund
- Rezco Value Trend Fund
- Saffron SCI Opportunity Income Fund
- Satrux Bond Index Fund
- Sanlam Multi Managed Inflation Linked Bond Fund
- Truffle SCI Flexible Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	38.17%	30.65%
Lowest 12-month performance	-11.21%	-10.44%
% positive months	65.91%	65.91%

The FG SCI Neptune Growth Fund of Funds returned +6.53% over the fourth quarter of 2021 and +19.82% over the past 12 months, underperforming the benchmark peer group average quarterly return of +7.29%, and the 12-month return of +20.31%. The Rezco Value Trend Fund was the worst-performing underlying fund, returning +0.21% over the quarter. No changes were made to the fund over the quarter.

Asset allocation as at 30 November 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Neptune Growth FoF	46%	2%	15%	10%	26%



FG SCI* MERCURY EQUITY FUND OF FUNDS

For periods until 31 December 2021

Performance and quartile ranking in sector | Launch date 15 August 2005

	6 Months	Year to date	1 Year	3 Years*	5 Years*	10 Years*	Since inception*
FG SCI Mercury Equity FoF	11.90%	26.86%	26.86%	14.19%	8.96%	10.02%	10.77%
FTSE/JSE Africa All Share (Total Return)	14.16%	29.23%	29.23%	15.71%	11.38%	12.17%	13.21%
ASISA SA Equity General Category Average	12.32%	26.72%	26.72%	11.75%	7.44%	8.94%	10.55%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data longer than 12 months is annualised

Source: Morningstar, performance for A class shares

Annualised returns are period returns re-scaled to a period of 1 year

Underlying funds

- 36ONE BCI Equity Fund
- Coronation Global Optimum Growth Feeder Fund
- Fairtree Equity Prescient Fund
- Gryphon All Share Tracker Fund
- Laurium Prescient Equity Fund
- Ninety One Equity Fund
- Ninety One Global Franchise Feeder Fund
- Prudential Equity Fund
- PSG Equity Fund
- Truffle SCI General Equity

Performance statistics

	Fund	Benchmark
Highest 12-month performance	56.15%	53.98%
Lowest 12-month performance	-31.68%	-37.60%
% positive months	62.76%	62.24%

The FG SCI Mercury Equity Fund of Funds returned +8.52% in the fourth quarter of 2021 and +26.86% over the past 12 months, underperforming the +15.13% quarterly return of the benchmark FTSE/JSE All Share Total Return Index and the 12-month return of +29.23%. The Coronation Global Optimum Growth Feeder Fund was the worst-performing underlying fund, returning +5.81% over the quarter. The Sesfikile BCI Property Fund holding was fully redeemed over the quarter. The proceeds of the redemption were reallocated to the existing equity managers.

Asset allocation as at 30 November 2021

	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG SCI Mercury Equity FoF	78%	1%	0%	5%	15%



FG SCI* INTERNATIONAL FLEXIBLE FUND OF FUNDS

For periods until 31 December 2021

Performance and quartile ranking in sector | Launch date 17 October 2007

	6 Months	Year to date	1 Year	3 Years*	5 Years*	10 Years*	Since inception*
FG SCI International Flexible FoF	12.43%	17.95%	17.95%	13.85%	10.08%	13.29%	9.40%
Benchmark**	12.63%	17.90%	17.90%	15.60%	10.97%	12.85%	10.48%
ASISA Global Multi Asset Flexible Average	12.63%	17.90%	17.90%	15.60%	11.03%	13.57%	9.47%
				1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile

*Data for longer than 12 months is annualised

Annualised returns are period returns re-scaled to a period of 1 year

** Benchmark before June 2013: 50% MSCI World Index, 50% JP Morgan Global Government Bond Index

Benchmark between July 2013 and July 2015: 55% MSCI AC World Index, 33% JP Morgan Global Government Bond Index, 7% FTSE EPRA Nareit Global Property, 5% Stefi Call

Underlying funds

- FGAM Global Cautious Fund
- FGAM Global Growth Fund
- FPA Global Flexible Fund
- Ninety One Global Strategic Managed Fund
- Ninety One Global Franchise Fund

Performance statistics

	Fund	Benchmark
Highest 12-month performance	40.26%	34.52%
Lowest 12-month performance	-16.99%	-15.05%
% positive months	57.65%	60.82%

The FG SCI International Flexible Fund of Funds returned +7.96% in the fourth quarter of 2021 and +17.95% over the past 12 months, underperforming the benchmark peer group average quarterly return of +8.58% but outperforming the 12-month return of +17.90%. The FGAM Global Cautious Fund was the worst-performing underlying fund over the quarter, returning +7.25% in rand terms. No changes were made to the fund over the quarter.

Asset allocation as at 30 November 2021

	Global Equity	Global Fixed Income	Global Cash	Global Property	Local Cash
FG SCI International Flexible FoF	66%	9%	17%	5%	3%

	USD	GBP	EUR	JPY	Other	ZAR
Currency Breakdown	61%	3%	12%	7%	14%	3%



MARKET PERFORMANCE

Index	Asset Class	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Last 12 months	Year to Date 2021*
STEFI Composite Index	Local Cash	0.90%	0.92%	0.95%	0.98%	3.81%	3.81%
Beassa ALBI Total Return	Local Bonds	-1.74%	6.86%	0.37%	2.87%	8.40%	8.40%
FTSE/JSE SA Listed Property (Total Return)	Local Property	6.40%	12.12%	5.94%	8.35%	36.94%	36.94%
FTSE/JSE Africa All Share (Total Return)	Local shares	13.14%	0.05%	-0.84%	15.13%	29.23%	29.23%
JP Morgan World Govt Bond index (USD)	Global Bonds	-5.65%	1.07%	-1.08%	-0.87%	-6.50%	-6.50%
FTSE EPRA Nareit Global REITs TR USD	Global Property	7.40%	9.94%	-0.14%	12.46%	32.61%	32.61%
MSCI World GR USD	Global Shares	5.04%	7.89%	0.09%	7.86%	22.35%	22.35%
MSCI ACWI GR USD	Global Shares	4.68%	7.53%	-0.95%	6.77%	19.04%	19.04%
US Dollar/South African Rand (+ weaker ZAR, - stronger ZAR)	Exchange Rate	0.78%	-3.31%	5.42%	5.93%	8.81%	8.81%

*(Return until 31 December 2021)



ADDITIONAL FUND INFORMATION

Fund name	No. of participatory interests*	NAV (month-end)	Total expense ratio (TER)**
FG SCI International Flexible FoF A	20 482 715.49	34.55	1.53
FG SCI International Flexible FoF A1	97.53	33.90	2.10
FG SCI International Flexible FoF B	1 758 220.27	28.24	3.20
FG SCI International Flexible FoF B1	9 954 097.25	29.13	2.97
FG SCI Jupiter Income FoF A	78 432 128.81	12.03	1.06
FG SCI Jupiter Income FoF A1	52.52	12.02	1.63
FG SCI Jupiter Income FoF B	7 936 213.19	12.01	2.78
FG SCI Jupiter Income FoF B1	14 041 107.42	12.01	2.49
FG SCI Mercury Equity FoF A	4 427 257.00	40.20	1.61
FG SCI Mercury Equity FoF A1	16.63	40.20	2.17
FG SCI Mercury Equity FoF B	306 110.13	38.70	3.34
FG SCI Mercury Equity FoF B1	53 410.80	39.56	3.05
FG SCI Neptune Growth FoF A	19 444 314.49	14.55	1.60
FG SCI Neptune Growth FoF A1	47.77	14.55	2.18
FG SCI Neptune Growth FoF B	2 177 424.34	14.51	3.33
FG SCI Neptune Growth FoF B1	1 171 719.29	14.52	3.04
FG SCI Saturn Moderate FoF A	49 847 716.01	32.47	1.49
FG SCI Saturn Moderate FoF A1	20.75	32.45	2.06
FG SCI Saturn Moderate FoF B	7 749 798.29	32.35	3.22
FG SCI Saturn Moderate FoF B1	6 266 022.98	32.36	2.93
FG SCI Venus Cautious FoF A	75 629 167.79	18.00	1.35
FG SCI Venus Cautious FoF A1	36.78	17.99	1.91
FG SCI Venus Cautious FoF B	3 233 885.45	17.88	3.07
FG SCI Venus Cautious FoF B1	12 992 763.98	17.88	2.78

* NAV (Mo-End) and no. of participatory interests as at 31 December 2021

**TER as at 30 September 2021



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